

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Arenac County Road Commission		County Arenac
Audit Date December 31, 2004	Opinion Date April 7, 2005		Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

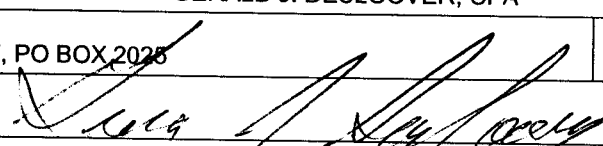
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

**ARENAC COUNTY ROAD COMMISSION**  
**(A Component Unit of Arenac County)**

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

April 8, 2005

Members of the Board of County  
Road Commissioners  
County of Arenac, Michigan  
Omer, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Arenac County Road Commission**, a component unit of Arenac County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Arenac County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Arenac County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2005, on our consideration of **Arenac County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Arenac County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rehmann Lohman*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Arenac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Arenac County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

### **Government-wide Statements**

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Arenac County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Arenac County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 25 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

## Government-wide Financial Analysis

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

### Arenac County Road Commission Net Assets:

	<u>2004</u>
Current and other assets	\$ 1,687,710
Capital assets	<u>2,645,672</u>
Total assets	<u>4,333,382</u>
Current and other liabilities	235,143
Long-term liabilities outstanding	<u>44,899</u>
Total liabilities	<u>280,042</u>
Net assets;	
Invested in capital assets,	
net of related debt	2,645,672
Unrestricted	<u>1,407,668</u>
Total net assets	<u>\$ 4,053,340</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Arenac County Road Commission, assets exceeded liabilities by \$4,053,340 at the close of the most recent fiscal year.

The largest portion of the Arenac County Road Commission's net assets reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the Arenac County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

## Governmental Activities

A summary of changes in net assets for the year ended December 31, 2004 follows:

	<u>December 31</u> <u>2004</u>
Program revenue	
Charges for services	\$ 1,221,487
Operating grants and contributions	
State transportation funds	2,670,011
Capital grants and contributions	
Federal and state sources	963,716
General revenue	
Interest and rents	14,324
Gain on equipment disposal	<u>78,929</u>
Total revenue	4,948,467
Expenses	
Public works	<u>2,691,087</u>
Increase (decrease) in net assets	<u>\$ 2,257,380</u>

Governmental activities increased the Arenac County Road Commission's net assets by \$2,257,380. The key elements of this increase are as follows:

- Grant and contribution revenue is expended by the Road Commission for construction and maintenance of roads. Under the full accrual method of accounting these amounts are capitalized as infrastructure additions, therefore, the revenue is not offset by capital expenses, causing a significant increase in net assets.



A summary of changes on the Operating fund is as follows:

	<u>For the year ended December 31, 2004</u>				<u>Actual for the Year Ended December 31 2003</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	
Revenue					
Permits and licenses	\$ -	\$ -	\$ 5,475	\$ 5,475	\$ 6,488
Federal sources	22,500	49,028	782,692	733,664	307,873
State sources	3,492,769	3,484,769	2,851,035	(633,734)	2,487,053
Contributions	468,824	482,191	487,789	5,598	329,118
Charges for services	595,619	796,100	728,223	(67,877)	615,797
Interest and rentals	-	-	14,324	14,324	9,572
Other revenue	-	-	78,929	78,929	6,725
Total revenue	<u>4,579,712</u>	<u>4,812,088</u>	<u>4,948,467</u>	<u>136,379</u>	<u>3,762,626</u>
Expenditures					
Primary road maintenance	2,153,474	2,022,225	2,090,556	(68,331)	1,431,300
Local road maintenance	1,578,650	1,607,150	1,640,082	(32,932)	1,250,315
State trunkline maintenance	567,119	567,503	592,355	(24,852)	578,791
State trunkline non-maintenance	-	117,182	112,888	4,294	60,128
Equipment expense (net)	-	-	(43,356)	43,356	22,009
Administrative expense (net)	285,410	269,931	276,456	(6,525)	306,833
Capital outlay (net)	-	46,430	33,787	12,643	42,239
Other	15,000	14,408	15,209	(801)	16,076
Total expenditures	<u>4,599,653</u>	<u>4,644,829</u>	<u>4,717,977</u>	<u>(73,148)</u>	<u>3,707,691</u>
Net change in fund balance	(19,941)	167,259	230,490	63,231	54,935
Fund balances, beginning of year	<u>1,222,077</u>	<u>1,222,077</u>	<u>1,222,077</u>	-	<u>1,167,142</u>
Fund balances, end of year	<u>\$ 1,202,136</u>	<u>\$ 1,389,336</u>	<u>\$ 1,452,567</u>	<u>\$ 63,231</u>	<u>\$ 1,222,077</u>

### General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$232,376 higher than the original budget primarily due to the neighboring counties and township contributions. There was an increase in the Michigan Transportation Funds due to new trailer registration fees. The actual revenue recognized during 2004 was more than the final amended budget by \$136,379.

The final amended expenditure budget for 2004 was \$45,176 greater than the original budget due to an increase in local road maintenance and state trunkline non-maintenance expenditures as a result of an increase in state, county, and township contributions. The actual expenditures recognized during 2004 were more than the final amended budget by \$73,148. There was an unfavorable variance in the primary road, local road, and state trunkline maintenance, administrative, and other expenditure line items.

### Capital Assets and Debt Administration

As of December 31, 2004, the Arenac County Road Commission had invested \$2,685,672 in capital assets. This amount represents a net increase (including additions and deductions) of \$2,034,292 for 37% as follows:

	<u>Balance December 31,</u>		
	<u>2004</u>	<u>2003</u>	
Capital assets not being depreciated			
Land and improvements	\$ 9,200	\$ 9,200	0.00%
Depletable assets	<u>623</u>	<u>1,330</u>	-53.16%
Subtotal	<u>9,823</u>	<u>10,530</u>	-6.71%
Capital assets being depreciated			
Buildings	373,344	373,344	0.00%
Equipment	3,455,129	3,187,713	8.39%
Infrastructure	<u>2,108,781</u>	<u>-</u>	100.00%
Subtotal	<u>5,937,254</u>	<u>3,561,057</u>	66.73%
Total capital assets	5,947,077	3,571,587	66.51%
Total accumulated depreciation	<u>(3,301,405)</u>	<u>(2,960,207)</u>	11.53%
Total net capital assets	<u>\$2,645,672</u>	<u>\$ 611,380</u>	332.74%

Major capital asset events during the current fiscal year included the following:

Various Resurfacing	\$2,108,781
Equipment	<u>267,416</u>
Total Additions	<u>\$2,376,197</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

## **Long-term debt**

At the year end, the Arenac County Road Commission had no notes, bonds or installment purchase agreements. The balance of the Road Commission's long-term obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Road Commission's budget for the 2005 fiscal year:

- According to the Michigan Department of Transportation estimates, no significant increases in the transportation fund are expected, due mainly to proceeds from trailer registration fees being a non-recurring source of revenue.
- An increase of 2% for Federal and State grants is available for Primary and Local construction and maintenance.

## **Requests for Information**

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Arenac County Road Commission, 116, Bridge Street, Omer, Michigan 48749.

## **BASIC FINANCIAL STATEMENTS**

# ARENAC COUNTY ROAD COMMISSION

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 565,944	\$ -	\$ 565,944
Investments	300,000	-	300,000
Accounts receivable			
Michigan transportation fund	401,732	-	401,732
State trunkline maintenance	73,598	-	73,598
State transportation department - other	1,108	-	1,108
Due on county road agreements	142,966	-	142,966
Sundry accounts receivable	1,198	-	1,198
Interest	3,128	-	3,128
Inventories			
Equipment material and parts	90,624	-	90,624
Road materials	85,127	-	85,127
Prepaid insurance	22,285	-	22,285
Capital assets			
Land and improvements	-	9,200	9,200
Property and equipment - net of accumulated depreciation	-	635,966	635,966
Infrastructure - net of accumulated depreciation	-	2,000,506	2,000,506
<b>Total assets</b>	<u>\$ 1,687,710</u>	<u>2,645,672</u>	<u>4,333,382</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 71,719	-	\$ 71,719
Accrued liabilities	19,039	-	19,039
Advances			
State trunkline equipment purchase	95,459	-	95,459
State trunkline maintenance	48,926	-	48,926
Long-term liabilities			
Due within one year	-	4,490	4,490
Due after one year	-	40,409	40,409
<b>Total liabilities</b>	<u>235,143</u>	<u>44,899</u>	<u>280,042</u>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventory	175,751	(175,751)	-
Unreserved, undesignated	1,276,816	(1,276,816)	-
<b>Total fund balance</b>	<u>1,452,567</u>	<u>(1,452,567)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,687,710</u>		
<b>Net Assets:</b>			
Invested in capital assets		2,645,672	2,645,672
Unrestricted		1,407,668	1,407,668
<b>Total net assets</b>		<u>\$ 4,053,340</u>	<u>\$ 4,053,340</u>

The accompanying notes are an integral part of these financial statements.

**ARENAC COUNTY ROAD COMMISSION**  
**Reconciliation of General Fund Balance Sheet**  
**to Statement of Net Assets**

**DECEMBER 31, 2004**

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Fund balances - General Fund	\$ 1,452,567
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and depletable assets	9,823
Add - property and equipment	3,828,473
Add - infrastructure	2,108,781
Deduct - accumulated depreciation	(3,301,405)

Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(44,899)
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Net assets of governmental activities	<u>\$ 4,053,340</u>
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The accompanying notes are an integral part of these financial statements.

# ARENAC COUNTY ROAD COMMISSION

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses</b>			
Public works	\$ 2,341,780	\$ 349,307	\$ 2,691,087
Capital outlay	2,376,197	(2,376,197)	-
Total expenditures/expenses	<u>4,717,977</u>	<u>(2,026,890)</u>	<u>2,691,087</u>
<b>Program revenue</b>			
Charges for services	1,221,487	-	1,221,487
<b>Operating grants and contributions</b>			
State transportation funds	2,670,011	-	2,670,011
<b>Capital grants and contributions</b>			
Federal and state sources	<u>963,716</u>	<u>-</u>	<u>963,716</u>
Total program revenues	<u>4,855,214</u>	<u>-</u>	<u>4,855,214</u>
Net program revenue			<u>2,164,127</u>
<b>General revenue</b>			
Interest and rents	14,324	-	14,324
Gain on sale of assets	<u>78,929</u>	<u>-</u>	<u>78,929</u>
Total general revenue	<u>93,253</u>	<u>-</u>	<u>93,253</u>
Total revenue	<u>4,948,467</u>		
Revenue and over (under) expenditures	230,490	(230,490)	-
Changes in net assets	-	2,257,380	2,257,380
Fund balance/net assets:			
Beginning of the year, as restated	<u>1,222,077</u>	<u>573,883</u>	<u>1,795,960</u>
End of the year	<u>\$ 1,452,567</u>	<u>\$ 2,600,773</u>	<u>\$ 4,053,340</u>

The accompanying notes are an integral part of these financial statements.

**ARENAC COUNTY ROAD COMMISSION**  
**Reconciliation of the General Fund Revenues, Expenditures**  
**and Changes in Fund Balance to the Statement of Activities**  
  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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Revenues over expenditures - General Fund	\$ 230,490
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	267,416
Add - Infrastructure purchases	2,108,075
Deduct - depreciation expense	(341,198)

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

(7,403)
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Change in net assets of governmental activities

<u>\$ 2,257,380</u>
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The accompanying notes are an integral part of these financial statements.



# ARENAC COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Permits and licences	\$ -	\$ -	\$ 5,475	\$ 5,475
<b>Federal sources</b>				
D funds - federal	-	-	413,533	413,533
Bridge	22,500	49,028	368,175	319,147
Other - bankhead jones	-	-	984	984
<b>State sources</b>				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	2,476,761	2,603,408	2,611,787	8,379
State critical bridge	405,000	261,483	48,224	(213,259)
Economic development funds				
Rural primary (D funds)	480,000	488,870	60,016	(428,854)
Forest Road (E)	121,008	121,008	121,008	-
<b>Contributions</b>				
City and Villages	-	-	10,859	10,859
Townships	468,824	482,191	475,548	(6,643)
Other	-	-	1,382	1,382
<b>Charges for services</b>				
State trunkline maintenance	567,119	567,503	592,356	24,853
State trunkline non-maintenance	-	117,182	112,888	(4,294)
Salvage sales	-	-	260	260
Other	28,500	111,415	22,719	(88,696)
<b>Interest and rentals</b>	-	-	14,324	14,324
<b>Other revenue</b>				
Proceeds on equipment disposals	-	-	78,929	78,929
<b>Total revenue</b>	<u>4,579,712</u>	<u>4,812,088</u>	<u>4,948,467</u>	<u>136,379</u>

The accompanying notes are an integral part of these financial statements.

# ARENAC COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
<b>Primary Road</b>				
Heavy maintenance	\$ 1,488,367	\$ 1,351,220	\$ 1,424,216	\$ (72,996)
Maintenance	665,107	671,005	666,340	4,665
<b>Local Road</b>				
Heavy maintenance	622,228	644,914	684,565	(39,651)
Maintenance	956,422	962,236	955,517	6,719
<b>Total maintenance</b>	3,732,124	3,629,375	3,730,638	(101,263)
<b>State trunkline maintenance</b>	567,119	567,503	592,355	(24,852)
<b>State trunkline non-maintenance</b>	-	117,182	112,888	4,294
<b>Equipment expense (net)</b>	-	-	(43,356)	43,356
<b>Administrative expense (net)</b>	285,410	269,931	276,456	(6,525)
<b>Capital outlay (net)</b>	-	46,430	33,787	12,643
<b>Other</b>				
Billable maintenance service	15,000	14,408	15,136	(728)
Interest expense	-	-	73	(73)
<b>Total expenditures</b>	4,599,653	4,644,829	4,717,977	(73,148)
<b>Net change in fund balance</b>	(19,941)	167,259	230,490	63,231
<b>Fund balances, beginning of year, as restated</b>	1,222,077	1,222,077	1,222,077	-
<b>Fund balances, end of year</b>	<u>\$ 1,202,136</u>	<u>\$ 1,389,336</u>	<u>\$ 1,452,567</u>	<u>\$ 63,231</u>

The accompanying notes are an integral part of these financial statements.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Arenac County Road Commission (the "Road Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### A. Reporting Entity

The *Arenac County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Arenac, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

### D. Assets, Liabilities, and Net Assets or Equity

#### 1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

#### 2. Inventory

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2004 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended December 31, 2004.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

### 4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2004, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 5. Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

##### Deposits

At December 31, 2004, the amounts of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured – uncollateralized	<u>765,944</u>	<u>826,992</u>
	<u><b>\$ 865,944</b></u>	<u><b>\$ 926,992</b></u>

##### Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### B. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2004</u>
Capital assets not being depreciated				
Land and improvements	\$ 9,200	\$ -	\$ -	\$ 9,200
Capital assets being depreciated				
Buildings	373,344	-	-	373,344
Road equipment	2,831,594	246,088	-	3,077,682
Shop equipment	102,537	4,000	-	106,537
Engineers equipment	43,447	-	-	43,447
Yard and storage equipment	137,103	-	-	137,103
Office equipment	73,032	17,328	-	90,360
Depletable assets	1,330	-	(707)	623
Infrastructure – roads	-	1,589,368	-	1,589,368
Infrastructure – bridges	-	519,413	-	519,413
Total capital assets being depreciated	<u>3,562,387</u>	<u>2,376,197</u>	<u>(707)</u>	<u>5,937,877</u>
Less accumulated depreciation				
Buildings	(309,196)	(11,314)	-	(320,510)
Road equipment	(2,348,229)	(208,205)	-	(2,556,434)
Shop equipment	(92,285)	(2,523)	-	(94,808)
Engineers equipment	(35,000)	(1,625)	-	(36,625)
Yard and storage equipment	(111,573)	(5,979)	-	(117,552)
Office equipment	(63,924)	(3,277)	-	(67,201)
Infrastructure – roads	-	(95,160)	-	(95,160)
Infrastructure – bridges	-	(13,115)	-	(13,115)
Total accumulated depreciation	<u>(2,960,207)</u>	<u>(341,198)</u>	<u>-</u>	<u>(3,301,405)</u>
Net capital assets being depreciated	<u>602,180</u>	<u>2,034,999</u>	<u>(707)</u>	<u>2,636,472</u>
Total net capital assets	<u>\$ 611,380</u>	<u>\$ 2,034,999</u>	<u>\$ (707)</u>	<u>\$ 2,645,672</u>

The net book value of the assets disposed of during the year is accounted for as a component of net capital outlay expenditures. The amount reported as gain on equipment disposals represents proceeds from insurance recoveries.



# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>Balance January 1, 2004</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2004</u>	<u>Due Within One Year</u>
Compensated absences	\$ 37,496	\$ 7,403	\$ -	\$ 44,899	\$ 4,490

### IV. OTHER INFORMATION

#### A. Defined Benefit Pension Plan

##### **Pension Plan**

The Road Commission's defined benefit pension plan provides retirement, disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

##### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current rates as a percentage of annual covered payroll are 16.48% for the General unit, 21.34% for the Administrative unit, 36.53% for the Engineer / Manager unit and 6.05% for the Office Manager / Clerk unit. Road Commission employees are not required to contribute to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission in accordance with negotiated labor agreements.

##### **Annual Pension Cost**

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$179,624 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003 the date of the latest actuarial valuation, was 30 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2002	\$124,597	100%	-
12/31/2003	169,217	100	-
12/31/2004	179,624	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2001	\$ 2,544,995	\$ 4,224,433	\$ 1,679,438	60%	\$ 852,506	197%
12/31/2002	2,471,245	4,389,779	1,918,534	56	909,258	211
12/31/2003	2,525,987	4,626,398	2,100,411	55	941,888	223

### **B. Self-Insurance Pool**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### C. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

### D. Restatements

As of and for the year ended December 31, 2004, the Road Commission implemented State of Michigan Numbered Letter 2002-5 *Michigan Transportation Funds Revenue Recognition*.

Implementation of the numbered letter had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported	\$ 1,021,555
Adjustment to accrue December MTF	<u>200,522</u>
Beginning fund balance, as restated	<u>\$ 1,222,077</u>

In addition, as of and for the year ended December 31, 2004, the Road Commission implemented the following Governmental Accounting Standards Board pronouncements:

#### Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – Certain Financial Statement Note Disclosures.

#### Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. The more significant of the changes required by the new standards include:

- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;

# ARENAC COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Budgetary schedules;
- Notes to the basic financial statements.

As a result of implementing these pronouncements for the fiscal year ended December 31, 2004, the following restatements were made to beginning net asset accounts.

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

Fund balance as of December 31, 2003, as restated	\$ 1,222,077
Add: governmental capital assets, including general fixed assets, as of December 31, 2003	3,571,586
Deduct: accumulated depreciation on capital assets as of December 31, 2003	(2,960,207)
Deduct: long-term portion of compensated absences payable as of December 31, 2003	<u>(37,496)</u>
<b>Governmental net assets, restated, as of January 1, 2004</b>	<b><u>\$ 1,795,960</u></b>

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**OPERATING FUND SCHEDULES**

# ARENAC COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
Permits and licenses	\$ -	\$ -	\$ 5,475	\$ 5,475
Federal sources				
D funds - federal	413,533	-	-	413,533
Bridge	368,175	-	-	368,175
Other - bankhead jones	-	-	984	984
State sources				
Michigan transportation funds				
Engineering	6,300	3,700	-	10,000
Allocation	1,668,812	942,975	-	2,611,787
State critical bridge	48,224	-	-	48,224
Economic development funds				
Rural primary (D funds)	60,016	-	-	60,016
Forest road (E funds)	121,008	-	-	121,008
Contributions from local units				
City and Village	-	-	10,859	10,859
Townships	-	475,548	-	475,548
Other governments	-	-	1,382	1,382
Charges for services				
State trunkline maintenance	-	-	592,356	592,356
State trunkline non-maintenance	-	-	112,888	112,888
Salvage sales	-	-	260	260
Other	-	-	22,719	22,719
Interest and rentals	5,827	6,150	2,347	14,324
Other				
Gain on equipment disposals	-	-	78,929	78,929
<b>Total revenues</b>	<u>\$ 2,691,895</u>	<u>\$ 1,428,373</u>	<u>\$ 828,199</u>	<u>\$ 4,948,467</u>

# ARENAC COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Heavy maintenance				
Roads	\$ 904,803	\$ 684,565	\$ -	\$ 1,589,368
Structures	519,413	-	-	519,413
Maintenance				
Roads	489,890	755,993	-	1,245,883
Structures	1,315	7,163	-	8,478
Winter maintenance	154,749	174,686	-	329,435
Traffic control	20,386	17,675	-	38,061
Total maintenance and construction	2,090,556	1,640,082	-	3,730,638
State trunkline maintenance	-	-	592,355	592,355
State trunkline non-maintenance	-	-	112,888	112,888
Equipment expense (net)	(9,161)	(25,086)	(9,109)	(43,356)
Administrative expense (net)	154,919	121,537	-	276,456
Capital outlay (net)		-	33,787	33,787
Interest expense	-	-	73	73
Other				
Billable maintenance service	-	-	15,136	15,136
<b>Total expenditures</b>	<u>\$ 2,236,314</u>	<u>\$ 1,736,533</u>	<u>\$ 745,130</u>	<u>\$ 4,717,977</u>

# ARENAC COUNTY ROAD COMMISSION

## GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>PRIMARY ROAD FUNDS</u>	<u>LOCAL ROAD FUNDS</u>	<u>COUNTY ROAD COMMISSION FUNDS</u>	<u>TOTAL</u>
Total revenues	\$ 2,691,895	\$ 1,428,373	\$ 828,199	\$ 4,948,467
Total expenditures	<u>2,236,314</u>	<u>1,736,533</u>	<u>745,130</u>	<u>4,717,977</u>
Revenues over (under) expenditures	455,581	(308,160)	83,069	230,490
Other financing sources (uses)				
Intrafund transfers	<u>(308,160)</u>	<u>308,160</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	147,421	-	83,069	230,490
Fund balance, beginning of year, as restated	<u>542,796</u>	<u>511,876</u>	<u>167,405</u>	<u>1,222,077</u>
Fund balance, end of year	<u>\$ 690,217</u>	<u>\$ 511,876</u>	<u>\$ 250,474</u>	<u>\$ 1,452,567</u>



**INTERNAL CONTROL AND COMPLIANCE**



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

April 8, 2005

Members of the Board of County  
Road Commissioners  
County of Arenac  
Omer, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the **Arenac County Road Commission** as of and for the year ended December 31, 2004, which collectively comprise the **Arenac County Road Commission's** basic financial statements, and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Arenac County Road Commission's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Arenac County Road Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of County Road Commissioners, the County's Board of Commissioners and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.